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SUBJECT: FAO COMMITTEE ON COMMODITY PROBLEMS SIXTY-FIFTH
SESSION

1. Summary. The Sixty-Fifth Session of the UN Food and Agriculture Organization (FAO) Committee on Commodity Problems (CCP) met in Rome April 11-13, 2005. The Committee reviewed FAO reports on the state of world commodity markets and its projections of supply, demand, trade and prices. Member countries discussed policy developments affecting agricultural commodity markets and trade, and their impact on global food security. They heard proposals from the Secretariat to improve notification, consultation and reporting procedures on food aid transactions monitored by the Consultative Committee on Surplus Disposal (CCSD), but a large majority of delegations (the USG excepted) deemed it premature to consider reforming the CCSD's role before the conclusion of current WTO agriculture negotiations. Among the CCP side events was a High-Level Round Table on Agricultural Trade and Food Security featuring WTO Director General Supachai as keynote speaker. There was a general consensus among participants that trade liberalization generally enhances food security by fostering economic growth, but many developing countries argued for continued support and protection of their own agricultural sectors even as they criticized high levels of support and protection in the developed world. End summary.

2. The FAO Deputy Director-General, David Harcharik, opened the session, highlighting that CCP is the only truly global platform for the discussion of problems facing agricultural commodity producers, exporters and importers, and for identifying appropriate solutions to these problems. In his remarks he identified several key themes for the session: the impact of low commodity prices on the import bills of food-importing developing countries and on remuneration for food exporting regions; recent market trends and the factors responsible for them; the implications of recent trade policy developments; FAO's expanding work in trade-related capacity building programs; and the work of the CCSD in tracking global food aid and its potential impact on trade.

3. The U.S. delegation was headed by Mary Chambliss, Deputy Administrator, Export Credits, USDA Foreign Agricultural Service. David Hegwood, US Mission Agricultural Minister-Counselor, served as alternate head. Other members were Lauren Landis, USAID Food for Peace Director, and Food for Peace staff members, Anne Marie del Castillo and Dale Skoric; Richard Hughes, FAO Liaison Officer, USDA Foreign Agricultural Service, and Willem Brakel, Alternate Permanent Representative to FAO, US Mission Rome. The United States represented the North America Region on the drafting committee.

State of World Agricultural Commodity Markets

4. Alexander Sarris, Director, Commodities and Trade Division, introduced the new flagship publication, State of World Agricultural Commodity Markets. Most delegations, including the United States, applauded FAO for this effort. The statements of many developing countries reflected the impact of the long-term decline in commodity prices. Despite this concern, the committee concluded that the problem should not be addressed by the introduction of new policies that would be likely to create market distortions. The U.S. statement called attention to the important role of markets in generating sustainable economic growth and encouraged FAO to provide policy advice to developing countries that recognizes the emerging consensus in favor of market liberalization. Brazil's statement criticized FAO for releasing a working paper on the impact of domestic and trade policies on the world cotton market in April 2004, while Brazil's WTO dispute settlement case on cotton was being litigated. Brazil said it disagreed with the conclusions in the paper and called for a review of FAO's policies on disseminating studies when they involve diverging views

among members. The EU statement provided a laundry list of initiatives being undertaken for the benefit of developing countries.

Policy Developments Affecting Agricultural Commodity Markets and Trade

15. Under this agenda item FAO presented two new work programs. The first is COSIMO, an econometric model of commodity market issues, which is being developed in collaboration with the OECD and its AGLINK model. To demonstrate the potential uses of the COSIMO model, FAO presented the results of an assessment of the implications of decoupling domestic payments for world commodity prices and trade. The second new work program, the Ag Policy Indicators initiative, is a collaborative effort among FAO, OECD, IFPRI, and the World Bank. The API will eventually include policy indicators for a large number of developing countries and will be used to analyze how agricultural and economy-wide policies affect food security, poverty reduction, agricultural growth, and rural development. Most delegations, including the United States, welcomed both of these initiatives and encouraged closer cooperation with institutions, such as the OECD, while also cautioning FAO to avoid duplication of efforts.

16. The second discussion point under this agenda item was trade policy reform and food security. The FAO presented a document analyzing the results of economic and trade policy reforms in selected developing countries. The analysis showed mixed results in the case studies, but the most significant factors influencing the success of reforms were found to be infrastructure and institutional contexts, sequencing of reforms, and consistency of implementation of reforms. The interventions of many delegations naturally focused on the reforms being considered in the WTO agriculture negotiations. Somewhat surprisingly, a number of countries acknowledged that WTO-mandated trade policy reforms are not a panacea; other measures are needed to address food security, such as infrastructure development and simplification of regulatory regimes. The report adopted by the committee calls for further case studies covering integration of trade and development policies, impacts of tariff escalation and non-tariff barriers, trade facilitation by private sector entities, incorporation of structural, institutional and legislative features into trade reform analysis, and analysis of the impact of competition and investment issues on trade policy reform.

National and International Commodity Risk Management

17. This discussion centered on risk management tools for developing countries that are highly dependent on commodity exports. A number of delegations pointed out that available risk management mechanisms, such as the use of futures markets for hedging, are not suitable for developing countries lacking the necessary financial and technological infrastructure. The U.S. comments focused on importer financing mechanisms and raised a number of questions about the feasibility of such tools. The Committee recommended FAO continue its work on risk management.

International Negotiations Concerning Food Aid

18. FAO introduced this agenda item by summarizing document CCP 05/14 and highlighting its recommendations for reforms to the Consultative Subcommittee on Surplus Disposal. The Secretariat then proposed establishing a working group to review the reform recommendations. However, the United States was virtually alone in supporting this proposal. A large majority of delegations commented that it would be premature to review the future nature and role of the CSSD in advance of the conclusion of the current WTO agriculture negotiations. The committee did agree that FAO should send a signal to WTO members with respect to the role of the CSSD in monitoring international food aid flows and indicating that it could be at the service of WTO if appropriate and required. Despite heavy lobbying by the U.S. delegation and an unusually aggressive effort by the FAO Secretariat, most countries were unwilling to agree to an FAO work program of any kind on food aid issues. Nevertheless, a number of countries, including Tanzania, Norway, Switzerland, and Algeria, supported in principle the need for FAO to look at assessment procedures.

Presumably, if WTO were to request FAO to undertake work

in this area, countries would be less concerned.
[Comment. This outcome was disappointing, but not surprising. Ironically, this is one of the few instances in which countries have been willing to abandon their professed support for the independence of international institutions and forthrightly proclaim that the WTO should trump the role of another institution. End Comment.]

International Year of Hard Fibers

19. During the Joint Meeting of the Intergovernmental Group (IGG) on Hard Fibers and on Jute, Kenaf and Allied Fibers in December 2004, a proposal was discussed on raising the profile of all natural fibers by organizing an International Year of Natural Fibers (IYNF). The Committee unanimously approved the proposal and requested that it submitted to the June Council meeting for approval.

Side Events

10. Four side events, including the High-Level Round Table were held in conjunction with the Session. The others were: Experiences in Regional Programs of Food Security; the Impacts of OECD Policies on Developing Countries; and CAP Reform, Trade and Developing Countries.

11. On April 13, the FAO hosted a meeting billed as a high-level round table discussion on food security and trade liberalization. The meeting was organized at the specific direction of FAO Director General Diouf. WTO Director-General Supachai gave the keynote address. Not surprisingly, he advocated support for the Doha Development Agenda, but he also attempted to pre-empt the argument that trade liberalization is a risk to food security by highlighting all of the mechanisms in the DDA agriculture text that would allow developing countries to avoid trade liberalization, i.e., special and differential treatment, sensitive products, special products, and the special safeguard mechanism. He said that food self-sufficiency is not equivalent to food security, and food security is best achieved in an economically integrated world. Noting that hunger and malnutrition almost always are the result of poverty, he defined the WTO's role in food security as raising incomes through economic growth. Given that since 1945 trade has grown faster than economic output in all but eight years, he called for an ambitious outcome in the DDA, which he said would only be possible by achieving a balance between import sensitivities and export interests.

12. In his statement, DG Diouf called attention to the fact that while there is a general consensus that trade liberalization contributes to economic growth. The distribution of winners and losers from the process is determined by the particular circumstances of individuals and countries. He offered three questions for the group's consideration: 1) Does agricultural trade liberalization threaten food security? 2) Under what circumstances can protection be justified to ensure food security? And, 3) What are the most appropriate national policies to ensure food security during the transition towards freer agricultural trade?

13. During the ensuing discussion period most participants read prepared statements. While there was a general consensus that trade liberalization will generally increase food security by fostering economic growth, many developing countries advocated for continued access to some level of support and protection for their agricultural sectors. Many also made reference to the high levels of support and protection in the developed world.

14. Although the meeting did not live up to its billing as a high-level dialogue, it was nonetheless a useful discussion of an issue of great interest to the FAO community in Rome. If FAO is to fulfill its potential as an opinion leader on global agricultural policy issues,

it should be encouraged to facilitate dialogue among its members.

Other Matters

15. The Sixty-Sixth Session will take place in 2007 and the dates will be set by the FAO.

16. In its opening statement the United States noted

that the experimental shortened format of the CCP this year and its scheduling contiguous with the Committee on Agriculture (COAG) appeared to be successful, but that we would like to revisit the issue after having a chance to reflect on the meeting.

117. Comment: In a side conversation with Assistant Director General de Haen, we encouraged him to maintain an ongoing dialogue with members on the issues raised at CCP, particularly the issue of trade policy reform and food security, and not wait for the next CCP meeting to pick up the discussion. The ADG said he planned to put several of the issues from CCP on the agenda of FAO regional group meetings in 2006 for continued discussion. This seems like a good step, but we would like to see more focused dialogue between FAO and its members, and among members, perhaps in the form of seminars, side events, or other low-cost meeting formats. End comment.
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